SASKWATER 2004 ANNUAL REPORT

105-04344/

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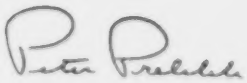
letter of transmittal

Regina, Saskatchewan
March 31, 2005

To Her Honour
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:
I have the honour to submit herewith the annual report of SaskWater for the year ending December 31, 2004. The annual report includes the financial statements, duly certified by auditors for the corporation, in the form approved by Crown Investments Corporation, and in accordance with The Saskatchewan Water Corporation Act.

Respectfully submitted,



Peter Prebble
Minister Responsible for SaskWater

concentric

adj : having a common center;

Source: Concise Oxford Dictionary

To SaskWater, concentric circles represent the interdependence of economy, society and environment.

Concentric – our 2004 Annual Report – highlights the value to Saskatchewan these bottom-line elements hold.

minister's message

Quality of water – Quality of life – Quality for the future

It is my pleasure to serve the people of Saskatchewan as Minister Responsible for SaskWater.

In its second year of operation the new SaskWater continued to deliver on its mandate to provide Saskatchewan communities with options for quality water and wastewater services. The Crown now serves 49 communities and 37 industrial customers, as well as many pipeline associations and individual rural households.

SaskWater is working to deliver good quality water to communities at affordable prices. Where possible a regional approach is taken to service delivery. Cooperation among communities has helped to facilitate regional pipelines that allow infrastructure costs to be more widely shared among users.

This year water services were enhanced through the implementation of continuous water quality monitoring throughout most of our water treatment facilities. Very sharp increases in insurance costs and the high cost of infrastructure replacement required SaskWater to institute a two phase rate increase.

In 2004, SaskWater made significant progress in demonstrating the added value Crown corporations offer to Saskatchewan people. The company recently introduced the SaskWater Scholarship Fund, a five-year commitment to the University of Regina and the University of Saskatchewan to award $30,000 in scholarship funds to Saskatchewan students. SaskWater has 70 permanent, full-time employees, actively involved in eight different communities. Employee salaries generated $3.8M for the provincial economy. SaskWater also purchased 97% of its total products and services in Saskatchewan, a value of $13.46M.

The Saskatchewan government recently announced its intention to make the province ready for the new century. Our goal is to build a green and prosperous economy that includes a significant role for our Crown utilities. As the province's Crown water utility, SaskWater is committed to preserving the quality of our environment and resources during the course of its operations.

I look forward to SaskWater's future, and I thank management and staff for the important work they perform.

Sincerely,

Peter Prebble

Peter Prebble
Minister Responsible for SaskWater

letter to stakeholders

The first years of the "new" SaskWater have been busy ones for the company.

In 2002, the provincial government's Drinking Water Strategy drove changes throughout government. As part of that strategy, the division of SaskWater that had been functioning as a water utility became the re-focused SaskWater, a commercial subsidiary of Crown Investments Corporation with a mandate of providing expanded water and wastewater services and products to Saskatchewan communities. Saskatchewan Environment was charged with creating enhanced drinking water regulations that would protect public health by requiring certified operators for treatment plants and by setting new water quality objectives.

A successful year followed in 2003, the first complete business year for the new SaskWater. Sales volumes of water were 11% higher than in the previous year as a result of increased demand from existing and new customers. We added customers in all lines of business, achieving our growth targets for the year. Our new customers represented a 10% increase in our population served.

Sales to industrial customers were up by 2% in 2004, but this was offset by a decrease of 9% in sales to municipal customers who used less water during last summer's cool, wet weather. Overall, sales volumes were down 1.5% to 4.1 billion gallons. Nevertheless, our revenues increased by $700,000 over the previous year as a result of new customers that came online early in 2004 and rate increases implemented in August. We also did an excellent job holding the line on our costs, with operating expenses maintained at the 2003 level of $18.7M.

We also put the past two years of experience in the new regulatory environment to good use in 2004 as we planned for continued growth in the next five years. While the anticipated market for Certified Operation and Maintenance has not materialized as quickly as we expected, the market for better water supply and infrastructure investment continues to increase and the past two years have confirmed our understanding of the advantages the company has to offer its customers. SaskWater invests, on behalf of customers, in sustainable water supply solutions to create regional systems delivering high-quality affordable water to a number of neighbouring communities, rural households and industry.

The past year also saw SaskWater involved in a brand research project and a project designed to further our understanding of sustainable development. The brand project identified stakeholder expectations and confirmed our commitments to deliver exceptional customer service, to improve communication and to further develop our employees as Brand Ambassadors. As one of the results of the sustainability project, we organized this year's annual report around the "triple bottom line," based on the *Concentric* relationship of economic prosperity, environmental quality and social investment in our business. These projects, and others to come, demonstrate our values and help us define the new SaskWater in the minds of our employees, our customers and our owners. We want SaskWater to be people's first choice as their employer, business partner and service provider.

Finally, we sincerely thank our employees for their hard work and enthusiasm, and our other stakeholders for their support and direction.

Stuart Kramer

Stuart Kramer, *President*

Murray Westby

Murray Westby, *Chair of the Board*

c rporate profile

SaskWater provides competitively-priced, customer-focused, quality water and wastewater services to First Nations, Saskatchewan industries, municipalities and rural water groups. SaskWater recognizes that our products and services are essential to life and that our customers' expectations are high – as they should be.

SaskWater designs, builds, owns and operates water supply and wastewater systems, providing quality water and cost-effective wastewater treatment that meets or exceeds regulatory requirements. SaskWater also operates and maintains customer-owned systems. Our turn-key solutions, complete with financing options, serve to maximize drinking water quality and minimize risk and liability.

Employees

Headquartered in Moose Jaw, SaskWater has approximately 70 permanent employees and offices in Watrous and Prince Albert with operating districts in White City, Saskatoon, Hanley, Gravelbourg, Wakaw and Melfort. An average operating revenue per employee of $238,000 compares favourably to other Crowns and water utilities.

Vision

To be Saskatchewan's leader in delivering water and wastewater services, building customer, employee and shareholder value through partnerships and quality management.

Mission

To provide competitively-priced, customer-focused, quality water and wastewater services.

Values

Honesty and integrity are the foundation of our company and we conduct our business in a manner consistent with the highest ethical standards.

Open communication within our Executive team and between Executive and employees is vital to our success.

We are committed to excellence and quality in everything we do.

We demonstrate good corporate citizenship by caring for the environment and the communities in which we operate.

Principles

Partnership - SaskWater's partnerships are key to its growth. We partner with our customers, businesses, engineering firms and suppliers.

Value - We deliver and recognize value. For customers, we provide value with competitive pricing and superior service and products. We recognize the value of our employees and treat them as key assets. We deliver value to the business with innovative, proven technology and value engineering.

Trust - We build trust by providing quality operations management, well-designed systems and ethical governance.

SaskWater recognizes that our products and services are essential to life and that our customers' expectations are high – as they should be.

Customers

SaskWater owns six water treatment plants, 30 water pump stations and over 770 km of pipeline. Through this network the company provides water (potable and non-potable) to:

- 49 municipal customers
- 37 industrial customers
- 42 public water boards, user groups, co-operatives and pipeline associations that supply water to about 1140 rural households and farms
- 330 individual households

SaskWater also provides Certified Operations and Maintenance for water and wastewater systems to seven municipal customers and one rural pipeline association. The company also owns and operates a regional wastewater treatment facility serving three customers near Nipawin and a municipal wastewater facility serving Pierceland.

Social, Environmental and Economic Responsibility

In 2004, the Government of Saskatchewan announced its intention to build a green and prosperous economy that includes a new role for its Crown utilities. In addition to supporting the province's Green Strategy, Crown corporations also play an important role in advancing the quality of life and economic development of the province.

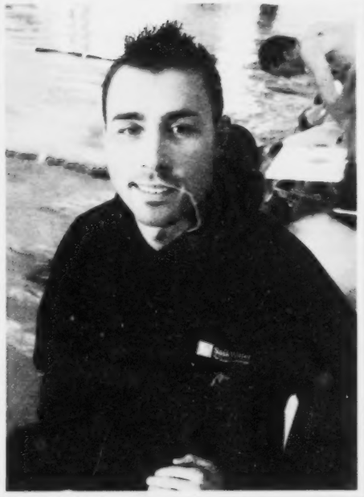
As the provincial Crown water utility SaskWater is moving towards triple bottom line reporting to its stakeholders. The triple bottom line approach focuses corporations not just on the economic value they offer through activities, but also the environmental and social impact of their business. In its simplest definition triple bottom line is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters.

At SaskWater triple bottom line reporting represents the corporate values, issues and processes that create economic, social and environmental value. We consider the needs of all SaskWater's stakeholders – customers, employees, business partners, governments, local communities and the public.

Mike Mintenko

Olympic Swimmer

A Moose Jaw native, Michael Mintenko competed in his second Olympic games in Athens 2004. SaskWater proudly supports Michael's goal-setting and achievements. Upon his return from Athens, Mintenko hosted a special swim with 273 students from Prince Arthur Community School.



Elizabeth Nguyen

Scholarship Recipient

University of Regina fourth-year Administration student Elizabeth Nguyen was the first recipient of the SaskWater Scholarship. The SaskWater Scholarship Fund provides $30,000 over five years to deserving candidates pursuing degrees in Business or Engineering at the University of Regina and the University of Saskatchewan.

social

c rporate social responsibility

Corporate Social Responsibility (CSR) is a company's commitment to conduct business in an economically, socially and environmentally sustainable manner while recognizing the interests of its stakeholders, customers, employees, partners, communities and society at large.

SaskWater's commitment to social responsibility continues to evolve and advance our business objectives and community values.

Building Respect and Understanding

SaskWater values its diverse and professional workforce. We recruit and retain employees from designated equity groups – Aboriginal persons, persons with disabilities, women in non-traditional roles and management, and visible minorities.

In 2004, 33% of our new employees belonged to diversity groups.

SaskWater is involved in many projects with First Nations in Saskatchewan. The Aboriginal population is rapidly growing and is recognized as the demographic from which SaskWater will draw a significant number of future employees. To further its relationships with the Aboriginal community, SaskWater has partnered with the First Nations University of Canada to deliver their Aboriginal Cultural Awareness Program (ACAP) to SaskWater employees. The ACAP program is delivered over two days and includes a series of relevant historical and contemporary topics presented from an Aboriginal perspective.

In 2004, over half of our employees (57%) attended the ACAP workshop.

SaskWater employees also attend Respect in the Workplace interactive workshops. Participants develop an understanding of how beliefs, values and generalizations shape our behavior and develop communication strategies to bridge differences in the workplace.

In 2004, over one-third of our employees (35%) completed Respect in the Workplace training.

Building Careers

As a growing company, SaskWater is committed to building careers for young Saskatchewan professionals. This commitment begins with education. In 2004 we introduced the SaskWater Scholarship Fund, a five-year commitment to the University of Regina and the University of Saskatchewan to award $30,000 in scholarship funds to Saskatchewan students. A $3,000 scholarship is awarded annually at each university to deserving diversity candidates pursuing degrees in Business or Engineering.

SaskWater awarded its first two scholarships to Elizabeth Nguyen, University of Regina Administration student, and Edwin Zhang, University of Saskatchewan Engineering Physics student.

Technical skills are also critical to SaskWater's future success. We were pleased to provide a Centennial Merit Scholarship to Water Resource Engineering student Karla Evert at SIAST Palliser Campus.

SaskWater offers 8-month and 4-month work placements through a co-operative work/education program. In 2004, four students from SIAST participated. SaskWater also offers 12-month and 16-month Engineering internships. One University of Saskatchewan student completed a 16-month internship in 2004.

A number of co-operative students successfully apply for permanent positions with SaskWater following their work placement term.

SaskWater's community investments focus on supporting children and youth and their families in Saskatchewan communities.

Building Prosperity

SaskWater employs 70 permanent, full-time people who are actively involved in 8 different communities. Employee salaries generate $3.8M for the provincial economy.

Believing in partnerships, SaskWater has a Memorandum of Understanding with the Consulting Engineers of Saskatchewan (CES), who employ more than 700 professional and technical support personnel. In 2004, our partnership generated over $3 million in revenues for CES.

In 2004, SaskWater purchased 96.9 % of its total products and services in Saskatchewan ($13.46M), compared to 94% in 2003.

Building Pride

SaskWater values the commitment and dedication of its employees. Each year we recognize employees who reach the milestones of 5, 10, 15, 20, 25, 30, and 35 years of service. In 2004, 21 employees were recognized for their service by the company and their peers at a special evening reception.

In 2004 SaskWater conducted a research driven review to measure and compare stakeholders' expectations and experiences of SaskWater. Guided by an employee driven steering committee, the final report and recommendations were shared with all SaskWater employees. The results and feedback have been instrumental in developing strategies to build and communicate the SaskWater brand.

Building Quality of Life

SaskWater's community investments focus on supporting children and their families in Saskatchewan communities. We are especially interested in supporting causes that assist youth and post-secondary initiatives to help students overcome obstacles to increase their chance of academic and life success.

In 2004, SaskWater continued its partnership with Prince Arthur Community School. Our contribution assists the community school in fostering healthy attitudes, active lifestyles and goal setting.

SaskWater's sponsorship enables Prince Arthur to offer a school-wide Kindergarten to Grade 8 swimming program. The funding also provided resources to the "reading-at home" program and purchased individual take-home agenda books for students that help teachers and parents communicate about school activities.

In celebration of spirit and excellence, SaskWater sponsored Saskatchewan athlete Michael Mintenko during the 2004 Summer Olympics in Athens, Greece. Mintenko, a native of Moose Jaw, was a member of the Canadian Olympic swim team and a positive role model for our youth.

Partnering with Mintenko sponsors Safeway and General Mills, SaskWater purchased Mintenko-endorsed energy bars for Prince Arthur Community school's nutrition program.

Following his return from the Olympics, SaskWater arranged for Michael to attend a special assembly at Prince Arthur to talk to the students about his Olympic dream and experience. Following the assembly Michael hosted a series of swimming lessons with the school's 273 students.

Karyn Mossing

Communications Consultant, SaskWater

Karyn handles all of SaskWater's community investment programs and maximizes our partnership opportunities with community organizations. She was the project coordinator for our "Fostering Environmental Champions in the Workplace" pilot project and remains our corporate liaison with Canadian Business for Social Responsibility. In her spare time Karyn also volunteers on the boards of the local Watershed Stewardship Group and the Trans Canada Trail.

environmental responsibility

In 2004, the Saskatchewan Government announced its intention to make the province ready for the new century. This includes having a green and prosperous economy and new roles for its Crown utilities and investments.

While growing this economy, the government believes that publicly owned utilities and Crown investments should also play an important role in preserving the resources and quality of life in our province. We agree.

The SaskWater Sustainability Project

SaskWater began its support for the province's green strategy by participating in a pilot project, *Fostering Environmental Champions in the Workplace*, with the Vancouver-based Canadian Business for Social Responsibility (CBSR).

We were the first company in Canada to measure our corporate "Eco-Footprint" and the pilot project provided us with more understanding of sustainability and its potential value to the business.

About 25% of our employees volunteered for the pilot project. They conducted an assessment of the business to gauge how SaskWater is currently performing from a sustainable development perspective and what systems and processes it has in place to manage this performance. Following the assessment CBSR facilitated a dialogue and planning session about sustainability, its importance to the employees, their concerns and priorities for moving forward.

We believe that sustainable development has the potential to make the company more competitive and to help us become leaders in our industry.

Sustainability Is Good Business[1]

Canadian Business for Social Responsibility describes certain benefits that companies experience when they take a sustainable approach.

Increased Efficiency

Sustainability is about using resources efficiently. Efficient companies deliver the same quality product or service while using fewer inputs and creating less waste.

Innovation

Committing to sustainability challenges us to find innovative ways to achieve our business objectives and remain competitive.

Reputation

Companies that embrace sustainability enjoy a positive reputation among customers, suppliers, governments and the public. In turn, companies with good reputations enjoy customer loyalty, repeat business and increased partnership opportunities.

Safety and Risk Management

A commitment to sustainability is a pro-active approach against the real financial risks that arise from social, environmental or safety mismanagement. Developing policy and procedures to reduce the risk of environmental or safety accidents that could result in the loss of valuable employees and/or costly lawsuits is key to business success.

Employee Satisfaction

Research has proven that employees prefer working for companies with strong environmental and social performance. Embracing sustainability will provide SaskWater with an advantage in recruiting and retaining talented employees. Companies that have committed to sustainability practices also experience lower rates of turnover. Employee turnover is a costly and time consuming problem for many businesses. Replacing a talented employee can cost a company up to 150% of that person's salary.

In short – satisfied employees are more productive, more creative and more likely to satisfy customers, and that's good business.

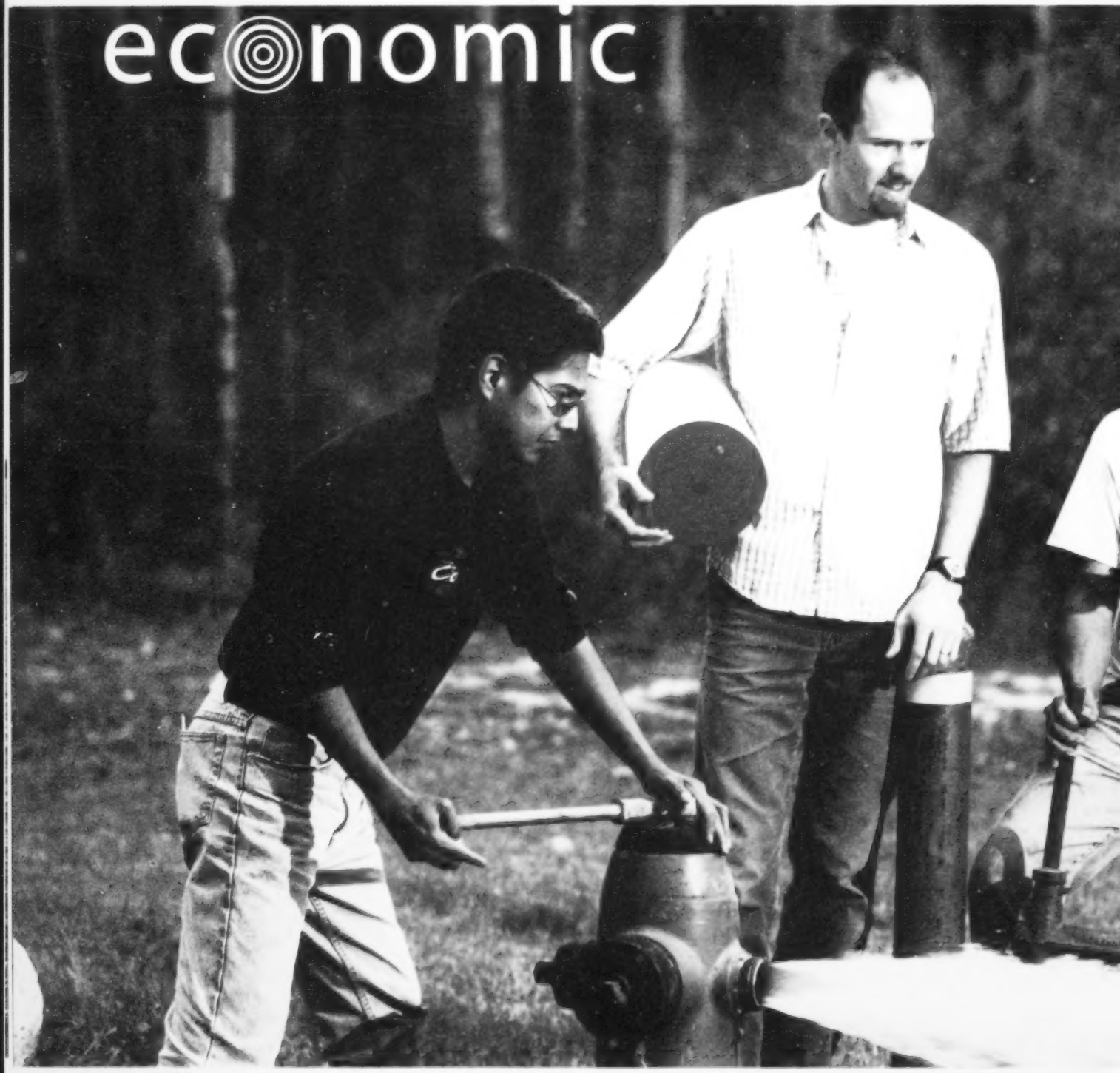
[1] The Sustainability Primer: An Introduction to Sustainability for Small and Medium-Sized Enterprises. Canadian Business for Social Responsibility. 2004

Cal Stewart

Senior Technician, Project Engineering

Cal Stewart's expertise helped SaskWater connect with a new water supply customer – the village of St. Louis. SaskWater invested $1 million to provide the village with quality drinking water by expanding its regional water system in the Wakaw-Humboldt area. The project consisted of 6.5 km of twinned pipeline, a new booster station and 11 km of pipeline to connect to St. Louis.

economic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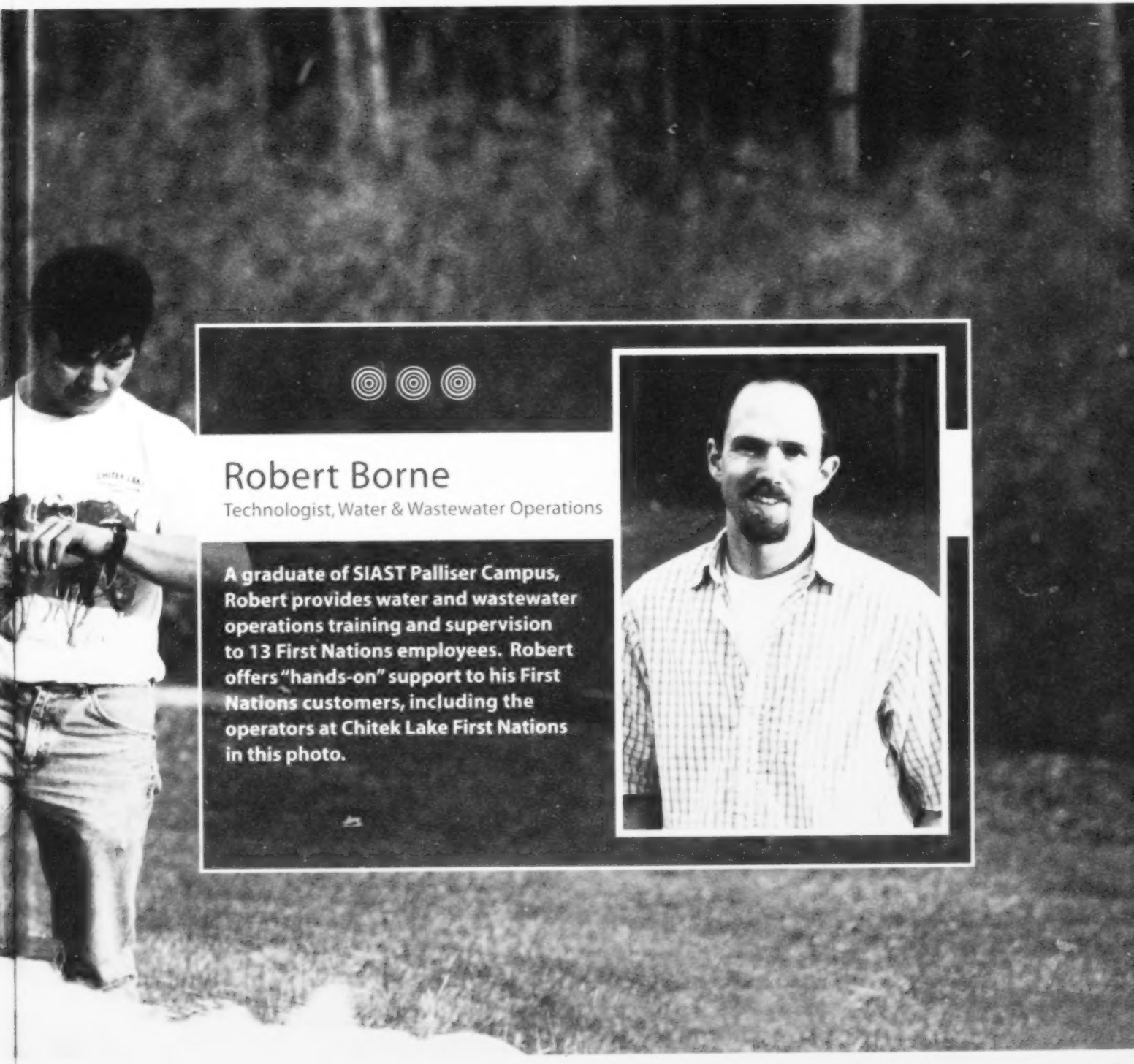


Robert Borne

Technologist, Water & Wastewater Operations

A graduate of SIAST Palliser Campus, Robert provides water and wastewater operations training and supervision to 13 First Nations employees. Robert offers "hands-on" support to his First Nations customers, including the operators at Chitek Lake First Nations in this photo.

economic responsibility

water treatment

Regional Treatment Systems – Humboldt Area

The regional water system shown in Diagram A begins with a pump station on the South Saskatchewan River west of Wakaw. This station pumps river water through 26 km of raw pipeline to a treatment plant just outside Wakaw. The plant employs five full-time operators and includes an on-site laboratory for water analysis. Once produced, the water is delivered to customers through approximately 165 km of pipeline. The system supplies some of the best water in the province to almost 9,300 people in ten communities (Hoey, St. Isidore-de-Belleuve, Domremy, Wakaw, Cudworth, Bruno, Humboldt, Muenster, Anaheim and Lake Lenore) and eight rural municipalities (St. Louis, Bayne, Humboldt, Fish Creek, St. Peter, Invergorden, Hoodoo and Lake Lenore). North Central Rural Pipeline Association and the SHL Rural Pipeline Association are also major customers of the system. SaskWater invested $26.4M to build this regional system in 1996. In 2004, the corporation began work on a $1M expansion to bring drinking water to the village of St. Louis (see Diagram A).

SaskWater Regional Treatment System - Humboldt Area

SaskWater owns and operates six water treatment plants that produced over 2.5 billion litres of quality water in 2004. The average cost? A dime buys about 60 liters.

Regional Treatment Systems – Melfort Area

The regional system shown in Diagram B begins with a pump station on Codette Lake and 52 km of pipeline that delivers river water to the water treatment plant in Melfort.

About 67 km of pipeline delivers superior drinking water to four towns in addition to Melfort (Beatty, Kinistino, Weldon and Star City) plus the Star City Colony and the Melfort Rural Pipeline Association. About 8,400 people are supplied with water in total (see Diagram B).

SaskWater Regional Treatment System - Melfort Area

Stand-alone Treatment Systems

SaskWater owns and operates stand-alone water treatment systems in White City, Gravelbourg, Edenwold and Pierceland.

In 2003, SaskWater and White City announced a new partnership agreement that saw SaskWater purchase the town's water treatment plant and other facilities for $760,000. The corporation also provides Certified Operations and Maintenance for the water and wastewater systems that serve the town.

SaskWater invested $1.7M to renovate the Gravelbourg system in 1997. About 11 kms of pipeline transfers raw water from Thomson Reservoir to the town where it is treated in SaskWater's plant. SaskWater then provides the water in bulk to the town, which operates its own distribution and wastewater system.

SaskWater also owns and operates the water treatment system in the village of Edenwold. Edenwold's water source is warm and shallow (similar to Gravelbourg's), creating an ideal environment for the growth of organic material. Residents complained about the odour of the treated water. SaskWater was able to make improvements in the treatment system that resulted in improved quality. In 2004, SaskWater began making further investments in the system for long term improvements in quality and supply.

In 2000, SaskWater invested $1.2M to build a conventional groundwater (well water) treatment system for the village of Pierceland, population 450. Working with this customer added groundwater expertise to SaskWater's extensive expertise in surface water treatment.

economic responsibility

water transmission

Transmission – Treated Water

The system shown in Diagram A sources water through interconnections with the City of Saskatoon and delivers water to eleven communities (Martensville, Warman, Osler, Hague, Dalmeny, Clavet, Bradwell, Allan, Grasswood, Casa Rio/Wood Meadow and Elstow) as well as several industrial customers and many rural households (see Diagram A).

SaskWater purchases water for the system shown in Diagram B from the Buffalo Pound Water Administration Board and the City of Regina and supplies it to five communities and rural users. SaskWater operates its own pumping units within the Buffalo Pound Treatment Plant and supplies water to the communities of Bethune, Disley, Marquis and Tuxford. SaskWater also owns and operates a pipeline that interconnects with the City of Regina's pipeline from the Buffalo Pound Treatment Plant. This SaskWater pipeline delivers water to the village of Grand Coulee and SaskFerco (see Diagram B).

SaskWater Treated Water Transmission – Saskatoon Area

A

SaskWater Treated Water Transmission
Buffalo Pound Area

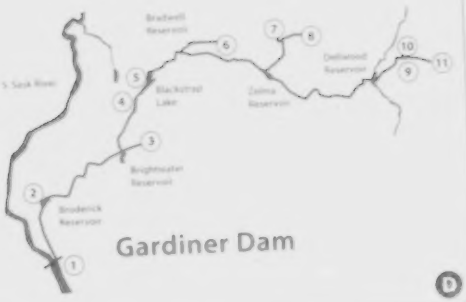
B

The water transmission business sources treated water from other utilities and resells it, or sources and supplies raw water.

SaskWater Raw Water Transmission System
Saskatoon Area

C

SaskWater Raw Water Transmission System - SSEWS



D

Transmission – Raw Water

The pipeline system shown in Diagram C began operation in the late 1960s and has been expanded ever since. Customers include the Cory Co-Generation Power Station, PCS Cory and Agrium Potash mines, three golf courses on the southeast side of Saskatoon, the village of Vanscoy, Riverside Estates, Cedar Villa, the Cargill Canola Crushing Plant near Clavet and other smaller industrial customers and rural holdings (see Diagram C).

SaskWater's Saskatoon Southeast Water Supply System (SSEWS) is a multi-purpose water supply system built in the mid-1960s. It supplies water from Lake Diefenbaker to potash mines, irrigation and municipalities as well as for recreation and wildlife projects. The system includes 158 km of canals, six reservoirs and a number of associated pipelines. Major industrial and municipal customers include three potash mines and the communities of Hanley, Thode, Shields, Viscount, Guernsey, Lanigan and Broderick (see Diagram D).

Raw Transmission – Irrigation, Recreation and Wildlife Projects

SaskWater operates works that supply water to four irrigation districts (a total of 30,000 hectares), individual irrigators, recreation sites (including Blackstrap Lake) and wildlife projects along the SSEWS system.

ec nomic responsibility

The Buffalo Pound Lake Area Raw Water Transmission System was constructed in 1994 to supply water from Buffalo Pound Lake to the SaskFerco Fertilizer Plant near Belle Plaine. Each year, SaskFerco uses about the same amount of water as a city the size of Swift Current. The system also supplies water to rural holdings in the area (see Diagram E).

The Zehner Aquifer near Regina supplies water for the Regina East area. SaskWater distributes the water to White City, Emerald Park and rural customers (see Diagram F).

SaskWater has three irrigation pump stations on Lake Diefenbaker which, in addition to irrigation customers, provide non-potable water to the village of Riverhurst, the Coteau Hills Rural Water Pipeline, the Cutbank Rural Pipeline Utility and other rural customers in the area (see Diagram G).

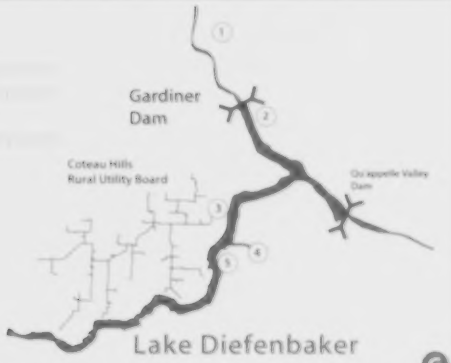
SaskWater Raw Water Transmission System
Buffalo Pound Lake Area

E

SaskWater Raw Water Transmission System
Regina East

F

Diefenbaker Lake Area Water Supply



G

Services

Certified Operation and Maintenance

SaskWater launched Certified Operations and Maintenance (O&M) as a new line of business late in 2002. SaskWater partners with communities to provide O&M of their water and wastewater utilities, including water supply, treatment, storage, distribution and wastewater disposal. We also provide customer and regulatory reporting, 24/7 continuous monitoring, emergency planning and customer support services. In 2004, SaskWater added Star City, Vanscoy, Edenwold and the North Central Rural Pipeline Association in the Wakaw area as O&M customers.

Program and Project Management

SaskWater provides customers with new or upgraded water and sewer systems that are functional, yet economical and "operator-friendly". Our experience in working with engineers and contractors and our technical expertise in water and wastewater provides a solid base from which to handle these projects. In addition, the relationships built through years of working with regulators and other provincial agencies ensure that regulatory and land control issues are dealt with efficiently. In 2004, SaskWater managed its own capital projects (worth $3.2M) and projects on behalf of municipal and government customers (worth $5.9M).

In northern Saskatchewan SaskWater plays a key role in planning and managing the design and construction of water and wastewater infrastructure. SaskWater signed an agreement with the Northern Revenue Sharing Trust Account Management Board (NRSTAMB) to provide program management of what has become a six-year, $35M initiative to construct and upgrade the water and wastewater infrastructure in Saskatchewan's 35 northern communities. The program, announced in 2000 by Saskatchewan Government Relations, serves the 35 communities in the Northern Administration District (NAD) with the goal of providing safe and secure water supplies and environmentally acceptable wastewater disposal in the north.

SaskWater services include managing the program budget, providing technical advice for conceptual and feasibility studies, managing the design and construction of the facilities and assisting with start-up and operation. In 2004, SaskWater also responded to six water quality and system emergencies in the northern communities on behalf of the NRSTAMB. The problems encountered and solutions to these challenges ranged from well failure and repairs in Weyakwin, a sewage forcemain collapse and replacement at Jans Bay, and a sewage lagoon secondary cell breach and intermediate repairs in Stony Rapids. SaskWater's role, backed by 20 years of experience in engineering, project management and general technical advice to northern communities, is vital to the success of the northern program.

SaskWater is working with its strategic partners – Saskatchewan Urban Municipalities Association (SUMA) and Consulting Engineers of Saskatchewan (CES) – to help communities meet The Water Regulations, 2002. Regulations require operators of permitted systems to provide a detailed waterworks system assessment to Saskatchewan Environment before the end of 2005. There are approximately 600 permitted waterworks systems in Saskatchewan, and only a certain number of engineers available to do the work before the end of the year. SaskWater acts as technical manager of the program, designed to help communities meet the regulations on time and as affordably as possible. SaskWater tendered assessments for 169 communities in 2004 and expects to complete a similar number in 2005.

First Nations and INAC: Training and Technical Support

SaskWater also works for Indian and Northern Affairs Canada (INAC), providing technical assistance and training for 109 operators on 54 First Nations and four operators in three northern communities. SaskWater also gathers water consumption and quality information for INAC.

balanced sc recard

2004

SaskWater is a subsidiary of Crown Investment Corporation (CIC) and receives strategic direction from CIC. SaskWater's performance management strategy, informed by the Crown Sector Strategic Plan, maintains accountability to the people of Saskatchewan by reporting on key objectives that drive business success. SaskWater's performance objectives and results are described in the Balanced Scorecard Report that follows.

Discussion of Results

- SaskWater installed 14 remote monitoring systems in 2004, bringing the total systems in use to 29, and exceeding the 2004 target of 25 systems in use. These systems reduce corporate risk and improve service to customers.
- In 2004, SaskWater managed the design and construction of $5.9M worth of water and sewer infrastructure projects owned by others (primarily municipalities).
- SaskWater finalized an emergency response plan template to be implemented in 2005.
- SaskWater continued to provide dependable service to its customers, with fewer service disruptions occurring than anticipated. Those that did occur lasted an average of four hours.
- SaskWater received a Boil Water Order on one of its treatment plants early in 2004. The company had recently acquired this plant and was determining which upgrades were required when the Regional Health Authority issued the Boil Water Order. Extensive improvements to the plant were undertaken in 2004.
- Treated water sales to municipal customers declined in 2004 due to the cool, wet weather.
- The average of 4.1 sick days per SaskWater employee in 2004 was below a national average of 6.3 days per year.
- 86% of SaskWater employees took additional training in 2004. Employee training as a percentage of total employee salaries fell short of the year's target as significant resources continue to be dedicated to business growth.
- SaskWater's progress towards achieving a representative workforce continues to be restricted. The company has a relatively low employee turnover rate and a limited number of qualified designated group members applying for jobs. Nevertheless, over 33 percent of all people hired in 2004 were from a diversity group, seven percent lower than our target.
- SaskWater invested $3.2M in water infrastructure projects, less than the $8.3M originally budgeted, as certain potential customers decided not to proceed with projects in 2004.

LEADERSHIP & GOVERNANCE

	Objectives	Measures	Targets 2005	Targets 2004	Results 2004
Enablers	Open communication	Clear, goal driven business plans for all business units	Revisited	Revisited	In Progress
		Staff conferences/updates	Quarterly	Quarterly	2
Outcomes	Leadership excellence	360-degree evaluation index of Executive Team	3.6	3.4	3.6
		Reporting of business unit work achievements	Quarterly	Quarterly	1

EMPLOYEE POTENTIAL, GROWTH AND SATISFACTION

	Objectives	Measures	Targets 2005	Targets 2004	Results 2004
Enablers	Enhance employee training	Training $ as % of employee salaries	4.0%	3.5%	1.5%
		% of employees taking training annually	60%	55%	86.7%
		Develop and implement a Human Resources Plan	completed	N/A	
Outcomes	Build and monitor employee satisfaction	Annual employee satisfaction survey[1]	6.0	5.8	N/A
		Number of employee "sick days" taken[2]	6.3	6.3	4.1

[1] A perfect 360 evaluation score is 5.0.

[2] The in-house developed employee satisfaction survey was not administered in 2004 because employee surveys were undertaken by a consultant as part of the corporate branding initiative. Differing methodologies prevent direct comparisons with previous SaskWater employee surveys.

[3] Average per employee. Includes sick days, family leave and bereavement leave.

balanced sc recard cont ...

CORPORATE POLICY & STRATEGY

	Objectives	Measures	Targets		Results
			2005	2004	2004
Enablers	Manage risks & incidents in a proactive manner	Establishment of an incident & risk management plan & communications strategy	Complete	Complete	In Progress
Outcomes	Establish operational partnerships	Number of partnership agreements in place	4	3	2
	Adoption of Total Quality Water Management approach	Annual employee TQWM survey*	5.6	5.4	N/A
	Manage irrigation assets & operation in a commercial & sustainable manner	Government approval of irrigation strategy	Accepted	Accepted	Ongoing

RESOURCES & ASSETS

	Objectives	Measures	Targets		Results
			2005	2004	2004
Enablers	Judiciously manage assets	Number of asset management plans	50%	30%	In Progress
	SaskWater projects are done efficiently & effectively	Frequency of SaskWater projects being completed on time	90%	85%	66%
Outcomes	Judiciously manage assets	O&M $ to Sales Volume	$2.50/su	$2.50/su	$1.78/su

* The in-house developed TQWM survey was first administered in 2004 as a pilot survey with assistance by a consultant as part of the corporate branding initiative. Efforts are underway to improve the survey in comparison with the previous SaskWater survey. An updated survey may be administered in 2005.

** Water pricing is set by the government. This objective will no longer be part of the SaskWater balanced scorecard.

*** Cost of water unit includes $0.65 capacity portion.

CUSTOMERS

	Objectives	Measures	Targets		Results
			2005	2004	2004
Enablers	Operate the utility to meet customer needs	Number of service interruptions	75	75	58
		Average length of service interruptions (time)	12 hours	13 hours	4.0 hours
	Provide access to safe drinking water	Number of boil water advisories for treated water supplied by SaskWater	0	0	1
	Provide awareness & knowledge of SaskWater products & services	Number of active business contacts with municipal & industrial clients	50	119	89
	Projects completed efficiently & effectively	Frequency of SaskWater projects being completed on budget	90%	85%	100%
Outcomes	Customer satisfaction*	Industrial customer satisfaction survey	6.8	6.4	N/A
		Community customer satisfaction survey	6.8	6.4	N/A
		Individual customer satisfaction survey	6.8	6.4	N/A

* An overall measure of how satisfied customers are with SaskWater on a scale from one to seven, where one is not satisfied at all and seven is very satisfied.

* Surveys developed in-house were first administered in 2004. Initial surveys were conducted by a consultant as part of the corporate branding initiative. Efforts to survey individuals and communities have been suspended pending review of the corporate branding initiative.

balanced sc recard cont ...

PUBLIC POLICY AND PURPOSE

	Objectives	Measures	Targets		Results
			2005	2004	2004
Enablers	Contribute to provincial economic diversification and growth	Percentage of products and services sourced in Saskatchewan	85%	85%	96.9%
		Value of new infrastructure investments in projects*	$7.0M	$8.2M	i) $3.2M ii) $5.9M
	Increase employee acceptance of diversity	Diversity training (total employee days)	30	30	102
	Demonstrate leadership on environmental issues	Number of wastewater facilities managed (new)	6	5	1
	Fulfill requirements of the Provincial Privacy Framework	% of framework implementation timelines met	100%	N/A	
Outcomes	Build a representative workforce**	Women in underrepresented groups Aboriginals People with disabilities Visible minorities	45% 12.8% 9.7% 5.4%	45% 12.8% 9.7% 5.4%	9.3% 2.7% 1.3% 1.3%
	Contribute to building a skilled Saskatchewan workforce	Number of technology & engineering students hired***	5	5	5
	Support Saskatchewan innovation & development	Number of remote monitoring & control systems in use	30	25	29

* i) Portion of 2004 $8.2M target attributable to projects owned by SaskWater: $3.2M
ii) Portion of 2004 $8.2M target attributable to projects solely managed by SaskWater: $5.0M

** Percentage representation for each designated group is based on the total workforce as at December 31, 2004 of 1,151 employees. During 2004, 23.3% of all new hires were from diversity groups.

*** Placements were made in 5 to 16 month student jobs solely hired after May 1.

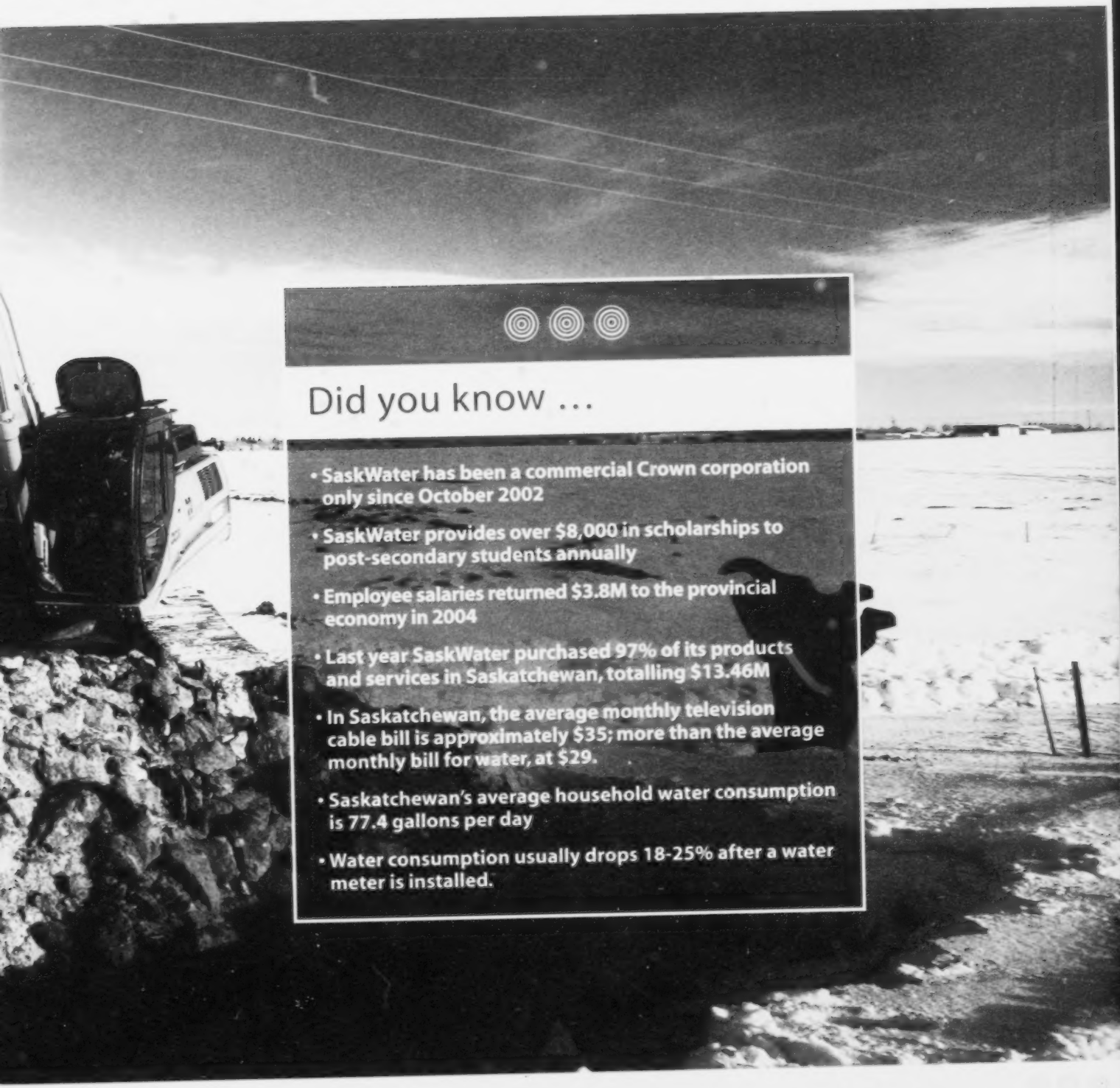
BUSINESS GROWTH

	Objectives	Measures	Targets 2005	Targets 2004	Results 2004
Enablers	Earn an appropriate return on the public's investment	Projected internal rate of return:			
		New Projects—Municipal	9%	9%	9%
		New Projects—Industrial	11%	11%	11%
		New Projects-- Government	9%	9%	n/a
	Meet growth targets in all lines of business	Growth in customer base*	10%	28	141
Outcomes	Ensure debt is kept to a sustainable level	Debt to Debt & Equity ratio**	85.9%	85.5%	83.7%
		Return on equity	-16.2%	-11.3%	-14.3%

*Business growth is a municipal category established to measure product and service offerings, new customers and markets, and increased returns earning from assets. The revised 2005 scales and assumes SaskWater's success at meeting its growth targets for various lines of business by measuring growth as a percentage in the company's overall customer base. This differs from past scorecards in which only the number of new customers were measured and reported. 2004 results include 101 Water System Assessment customers.

**Debt load is primarily a product of the Cookthe Lake and Wakaw-Humboldt regional water supply systems.

economic
CASE



Did you know …

- SaskWater has been a commercial Crown corporation only since October 2002
- SaskWater provides over $8,000 in scholarships to post-secondary students annually
- Employee salaries returned $3.8M to the provincial economy in 2004
- Last year SaskWater purchased 97% of its products and services in Saskatchewan, totalling $13.46M
- In Saskatchewan, the average monthly television cable bill is approximately $35; more than the average monthly bill for water, at $29.
- Saskatchewan's average household water consumption is 77.4 gallons per day
- Water consumption usually drops 18-25% after a water meter is installed.

management discussi n and analysis

2004 Results

Operating Revenues

Operating revenues increased by 4.7% to $16.7M, up from $16.0M in 2003.

Revenue in the Water Treatment business increased by $163,000 over 2003 as the result of adding new customers (Star City, White City and Cudworth) and increasing rates between 2% to 4%.

Increased revenues in Water Transmission and Supply ($192,000 over 2003) are largely the result of rate increases implemented in August 2004.

Revenues in Certified Operations and Maintenance increased to $197,000 in 2004 from $32,000 in 2003 as the result of adding four new customers (Vanscoy, Star City, North Central Rural Pipeline Association and Edenwold).

Services revenues increased by $302,000 over 2003. Services include:

- Municipal Project Management (revenues up $192,000 over 2003)
- Program and Project Management for the Northern Water and Sewer Program administered by Government Relations (revenues up $141,000)
- First Nations operator training and technical support (revenues up $133,000)

Crown Investments Corporation provided an operating subsidy of $9,233,000, including:

- $900,000 for legal expenses related to the Lake Diefenbaker Potato Corporation lawsuit against SaskWater and the government
- $7,900,000 for the settlement of the lawsuit noted above. Orders in Council authorized SaskWater to receive grant funding up to $9,600,000 in 2004 (See Notes to the Financial Statements, Note 11)
- $433,000 in operating subsidies

In 2003, SaskWater received an operating subsidy of $1,100,000 from CIC.

Operating Expenses

Operating expenses in 2004 are presented by line of business. Comparatives for 2003 have been reclassified to conform with the 2004 presentation format.

Expenses in Water Treatment and Supply increased by $518,000 (16.2%). Last year was the first full year of operation for new treatment customers connected late in 2003. Operating expenses include depreciation and interest tied to the capital invested to provide the new service. A greater percentage of employee time is now being allocated to treatment, rather than transmission, as the treatment business expands.

Expenses in Water Transmission and Supply decreased by $170,000 (2.7%). With sales volumes to irrigation and municipal customers down, expenses also decreased. Utilities represent a significant percentage of costs and there is a direct correlation between consumption and utility costs.

Expenses in Certified Operations and Maintenance increased $343,000 (from $71,000 in 2003 to $414,000 in 2004) due to increased expenses to support the new customer base. SaskWater introduced this service in 2002 and has been successful in delivering it cost-effectively as an additional service to existing water supply customers. Providing the service to stand alone customers has been a challenge – the corporation is implementing new strategies to make the service more cost-effective.

Expenses for Services (Municipal Project Management, Program and Project Management for Government Relations' Northern Water and Sewer Program, and First Nations operator training and technical support) increased by $373,000. This increase is attributed to new customer growth and additional employees for First Nations operator training.

In 2003 and 2004, SaskWater allocated salary, administration and overhead to its revenue-generating lines of business. "Other" expenses represent the portion of these expenses that remained unallocated at the end of the year. Other expenses decreased by $916,000 from 2003.

Volumes

Total water sales volumes decreased by 1.5 percent to 4.1 billion gallons. (2003 – 4.2 billion gallons). While sales to industrial customers were up 2%, sales to golf courses and feed lot customers declined. Sales to municipal customers were down 9% due to cool, wet weather experienced in 2004.

Capital Investment

In 2004 SaskWater invested $3.2M to expand regional systems to serve St. Louis, Agrium and Canada Salt, to improve the stand-alone water treatment system serving Edenwold, and to develop a regional wastewater project in the Fort Qu'Appelle area. The corporation also invested $3.2M in 2003.

Net Loss

For 2004, SaskWater's net loss was $1.5M after an operating grant of $0.4M. In 2003, SaskWater reported a net loss of $2.3M after an operating grant of $1.1M.

Key Performance Factors

Approximately 40% of total revenue is derived from sales of non-potable water to industrial customers for use in their processes.

Weather affects sales to municipal customers. Drought increases sales while cool, wet weather reduces sales.

Key Financial Data

- Assets total $69.9M. (2003 - $69.2M)
- SaskWater is not expected to declare a dividend to CIC in 2005
- Return on equity (earnings after operating grant as a percentage of equity) is -14.3 percent
- Debt ratio (debt as a percentage of debt plus equity) is 83.7 percent

Interest Costs

SaskWater paid $3.4M in interest costs in 2004 and expects to pay $3.6M in 2005. While the "new" SaskWater was created with proclamation of The Saskatchewan Water Corporation Act in October 2002, the company carries significant long-term debt largely associated with two regional systems built by its predecessor under a non-commercial mandate.

management discussi n and analysis

2005 Outlook

SaskWater expects revenues from water sales to increase by $1.2M to $17.9M (7%). This increase is largely the result of additional water sales and the impact of rate increases announced in 2004 and implemented in 2004 and 2005.

Revenues for all services (Certified Operations and Maintenance, Municipal Project Management, Program and Project Management for Government Relations, First Nations training and support) are expected to increase by 8%.

SaskWater will continue its work as Project Manager for SUMA in the Water System Assessment Program in 2005. Saskatchewan Environment requires municipalities to submit an engineer's assessment of their waterworks by December 2005. SaskWater has been working closely with SUMA to promote and implement a province-wide program designed to assist municipalities in meeting the regulations on time and in a cost-effective manner. SaskWater expects about 170 communities to participate in the 2005 program.

In 2005, SaskWater will begin its work towards achieving ISO 9000 certification. The corporation believes that the benefits of certification will be sig ificant and will provide evidence to customers of the quality of its products and services.

SaskWater expects to invest $7.2M in water and wastewater infrastructure projects in the province. Investment will include improved treatment for the town of Gravelbourg, where SaskWater owns and operates the municipal treatment system, and upgrades to the company's treated water transmission system in the Saskatoon area. Other investments will be driven by implementation of the 2005 sales strategy.

The corporation expects to report a net loss of $1.7M in 2005 and does not plan to apply for any operating grants from CIC.

management's resp nsibility

Management has prepared the financial statements of the Corporation in accordance with Canadian generally accepted accounting principles. The financial data included elsewhere in this report is consistent with these statements and the underlying information from which the Corporation prepared them.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

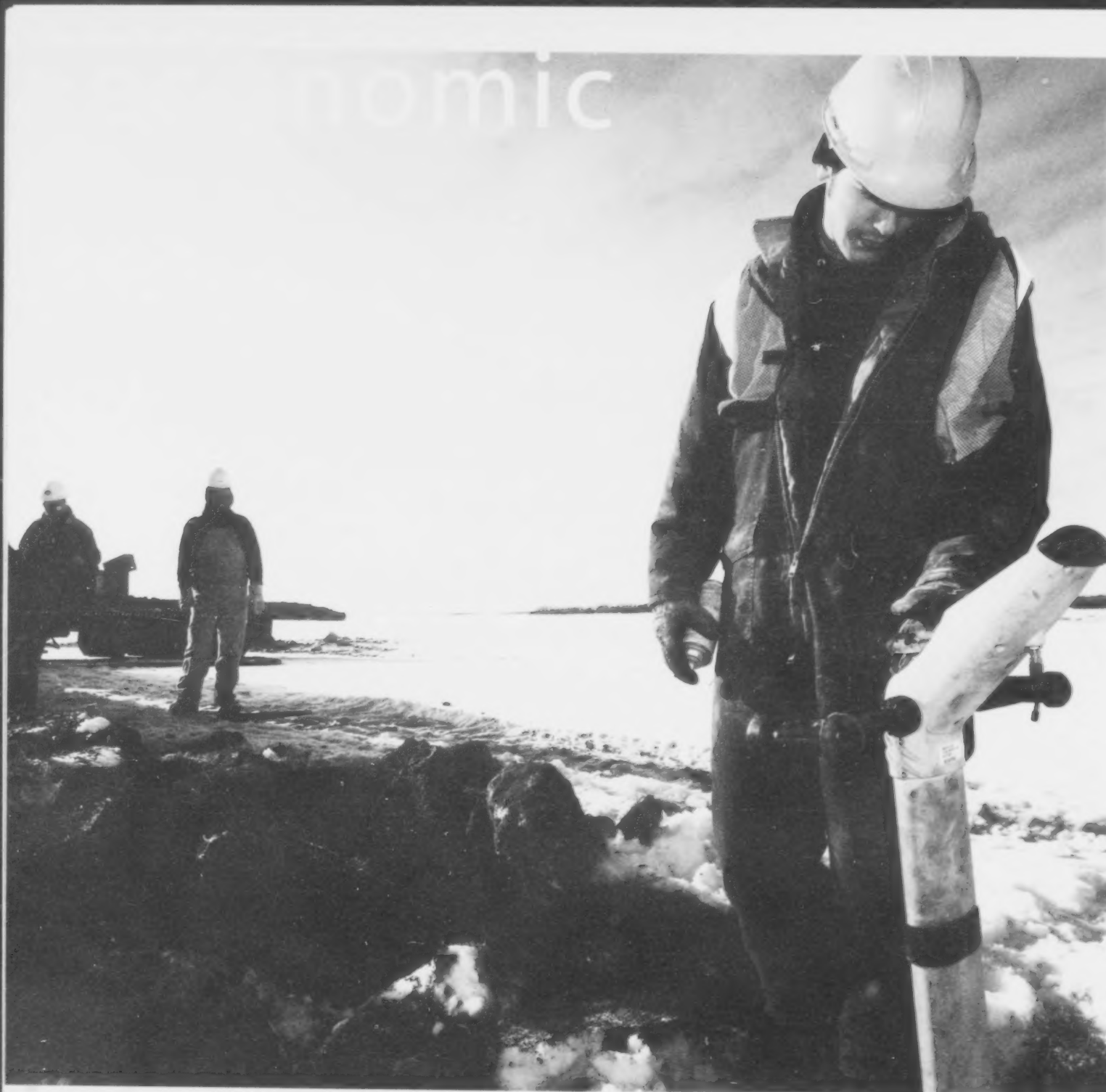
Meyers Norris Penny LLP, the Corporation's external auditors, have examined the December 31, 2004, financial statements and their report follows.

The Board of Directors of SaskWater has examined and approved the statements.

On behalf of the Corporation,

Stuart Kramer

Stuart Kramer, *President*
January 28, 2005



Auditors' Report

To the Members of
the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Water Corporation as at December 31, 2004, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Saskatchewan Water Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Chartered Accountants

Regina, Saskatchewan
January 28, 2005

statement of financial position

as at December 31, 2004

	2004	2003
	(Thousands of Dollars)	
ASSETS		
Current assets		
Accounts receivable and advances	$ 3,388	$ 2,580
Prepaid expenses and supplies	217	254
Current portion of long-term receivables	11	14
	3,616	2,848
Long-Term Receivables	56	67
Property, Plant and Equipment	66,241	66,273
	$ 69,913	**$ 69,188**
LIABILITIES AND PROVINCE OF SASKATCHEWAN'S EQUITY		
Current liabilities		
Bank indebtedness	$ 49	$ 54
Accounts payable and accrued liabilities	2,819	2,529
Notes payable	15,500	13,395
Current portion of long-term debt	7,618	764
	25,986	16,742
Deferred Revenue and Prepayments	1,877	2,680
Long-Term Debt	31,058	37,258
Other Long-Term Obligations	263	245
	59,184	56,925
Province of Saskatchewan's Equity		
Equity advance	700	700
Contributed surplus	1,346	1,346
Retained earnings	8,683	10,217
	10,729	12,263
	$ 69,913	**$ 69,188**

Commitments and Contingencies

See accompanying notes

on behalf of the Board:

Chair

Director

statement of operations and retained earnings

for the year ended December 31, 2004

	2004	2003
	(Thousands of Dollars)	
REVENUE		
Water Transmission and Supply	$ 10,833	$ 10,641
Water Treatment and Supply	3,998	3,835
Wastewater Treatment	131	127
Operation and Maintenance	197	32
Services	1,251	949
Other	330	399
	16,740	15,983
EXPENSES		
Water Transmission and Supply	6,083	6,253
Water Treatment and Supply	3,712	3,194
Wastewater Treatment	67	57
Operation and Maintenance	414	71
Services	1,718	1,345
Other	522	1,438
Amortization of property, plant and equipment	2,733	2,748
Interest	3,418	3,563
	18,667	18,669
Loss before the following	(1,927)	(2,686)
Operating grant	9,233	1,100
Expenses related to legal settlement	(8,840)	(698)
Net Loss	**(1,534)**	**(2,284)**
Retained Earnings, Beginning of Year	10,217	12,501
Retained Earnings, End of Year	**$ 8,683**	**$ 10,217**

See accompanying notes

statement of cash flows

for the year ended December 31, 2004

	2004	2003
	(Thousands of Dollars)	
OPERATING ACTIVITIES		
Net Loss	$ (1,534)	$ (2,284)
Charges and credits not affecting cash:		
Amortization of property, plant and equipment	2,733	2,748
Amortization of deferred revenue and prepayments	(774)	(634)
Amortization of premium	(38)	(37)
Sinking fund earnings	(359)	(198)
Loss on disposal of property, plant and equipment	12	-
Net Changes in non-cash working capital balances relating to operations:		
Deferred revenue and prepayments	9	38
Other	(460)	1,601
Cash (used in) provided by operating activities	(411)	1,234
INVESTING ACTIVITIES		
Long-term receivables	11	14
Property, plant and equipment expenditures	(3,190)	(3,177)
Proceeds on disposal of property, plant and equipment	477	-
Cash used in investing activities	(2,702)	(3,163)
FINANCING ACTIVITIES		
Proceeds from long-term debt	2,100	-
Proceeds from notes payable	2,105	3,012
Retire long-term debt	(764)	(714)
Sinking fund installments	(323)	(302)
Cash provided by financing activities	3,118	1,996
Increase in Cash	**5**	**67**
Bank Indebtedness, Beginning of Year	(54)	(121)
Bank Indebtedness, End of Year	**$ (49)**	**$ (54)**
Interest paid during the year	$ 3,480	$ 3,479

See accompanying notes

notes to the financial statements

December 31, 2004

1. STATUS OF THE CORPORATION

The Saskatchewan Water Corporation (the Corporation) was established on July 1, 1984, under the authority of The Water Corporation Act which remained in effect until September 30, 2002.

On October 1, 2002, The Saskatchewan Water Corporation Act was proclaimed.

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

In accordance with the provisions of The Saskatchewan Water Corporation Act, the Corporation's general powers and purposes are to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to this Act.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates based on management's judgement. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

Capitalization of Expenses

Internally provided engineering and technical services are capitalized at standard labour rates designed to recover salaries, benefits and overhead. The objective of this policy is to recognize the approximate value of design, supervision and administrative services rendered by Corporation employees on construction projects. Internally provided services capitalized amounted to $640,000 (2003 - $479,500). As well, the Corporation capitalizes interest expense on debt relating to specific construction projects until they are substantially completed. During the year, $15,000 (2003 - $15,700) in interest was capitalized.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost to the extent that these costs are recoverable from future operations. Assets under construction are capitalized at cost, and are transferred to the appropriate asset category when construction is complete and the asset is in use. Assets are capitalized at cost net of any subsidies or contributions received for that specific purpose.

Amortization of property, plant and equipment is calculated at the following annual rates designed to amortize the recorded cost over the estimated useful lives of the capital assets. Assets under construction transferred to the appropriate asset category before June 30th are amortized for the full year, otherwise they are not amortized until the following year.

The Corporation reviews assets for impairment on a regular basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the projected future net cash flows the long-lived assets are expected to generate. The results of the recoverability test indicate that the Corporation's long-lived assets are not impaired.

Property, Plant and Equipment	Method	Rate
Building	straight-line	2.5% to 5%
Water facilities	diminishing balance or straight-line, as appropriate	2% to 30%
Maintenance and Office Equipment	diminishing balance or straight-line, as appropriate	10% to 30%

Post Retirement Benefits Other Than Pensions

The Corporation administers a benefit relating to a retirement allowance which is paid to eligible employees upon retirement. The Corporation has adopted the accrual method of accounting for this benefit whereby the cost of providing the benefits is recorded when the related services of employees are performed.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues are amortized based on estimated useful lives. These assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Revenue Recognition

Revenue is recognized as services are rendered based upon agreed upon rates and contracts. Revenue received in advance of services being rendered are recorded as deferred revenue.

December 31, 2004

3. LONG-TERM RECEIVABLES

Year Receivable	2004	2003
	(Thousands of Dollars)	
2004	$ -	$ 14
2005	11	11
2006	12	12
2007	13	13
2008	15	15
2009 and subsequent	16	16
	67	81
Less: Current portion on long-term receivables	(11)	(14)
	$ 56	$ 67

Amounts in this account represent loans issued to various clients for water supply agreements repayable over the next several years.

4. PROPERTY, PLANT AND EQUIPMENT

	2004			2003
	(Thousands of Dollars)			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,545	$ -	$ 1,545	$ 1,545
Buildings	1,213	646	567	669
Water facilities	95,580	33,886	61,694	63,179
Maintenance equipment	1,352	975	377	721
Office equipment	151	95	56	39
Assets under construction	2,002	-	2,002	120
	$ 101,843	$ 35,602	$ 66,241	$ 66,273

5. NOTES PAYABLE

Due Date	Interest Rate	2004	2003
		(Thousands of Dollars)	
March 31, 2005	2.50%	$ 15,500	$ -
March 31, 2004	2.62%	-	13,395
		$ 15,500	$ 13,395

By Order-in-Council, SaskWater is authorized to borrow up to $18,000,000 by way of temporary loans from the Province of Saskatchewan - General Revenue Fund.

6. DEFERRED REVENUE AND PREPAYMENTS

Deferred revenue and prepayments, in part, represent revenue received from certain customers at the commencement of supply. These prepayments are amortized into revenue at 5% per annum on a straight-line basis or are matched against annual expenses.

Premium and issue costs relating to long-term debt are deferred and amortized on a straight-line basis over the term of the respective debt issue.

	2004	2003
	(Thousands of Dollars)	
Balance, beginning of year	$ 2,680	$ 3,313
Contributions received	9	38
Amortization of revenue	(256)	(195)
Amortization of premiums	(38)	(37)
Amortization of prepayments	(518)	(439)
Balance, end of year	$ 1,877	$ 2,680

7. LONG-TERM DEBT

Year Payable	Interest Rate	2004	2003
		(Thousands of Dollars)	
2004	7.375%	$ -	$ 764
2005	7.500%	7,618	7,618
2006	7.500%	876	876
2007	7.625%	940	940
2008	7.750%	1,009	1,009
2009	4.75% / 7.875%	5,585	5,585
2010	8.00%	1,166	1,166
2011-2016	8.071%	9,143	9,143
2022/2024	9.6% / 5.32%	17,100	15,000
		43,437	42,101
Less: Current portion of long-term debt		(7,618)	(764)
Less: Equity in sinking funds		(4,761)	(4,079)
		$ 31,058	$ 37,258

These loans are due in the year payable to the General Revenue Fund with interest payable semi-annually. Minimum sinking fund installments required over the next five years are $171,000 per year.

8. OTHER LONG-TERM OBLIGATIONS

	2004	2003
	(Thousands of Dollars)	
Retirement allowance	$ 263	$ 245

This unfunded employee benefit is discounted at an interest rate of 4.50% (2003 - 4.75%). The amount of allowances disbursed in the year were $0 (2003 - $25,500).

9. EQUITY ADVANCE

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

As of December 31, 2004, the Corporation has outstanding commitments of $670,600 (2003 - $221,528) for construction contracts and consulting agreements primarily relating to assets under construction.

Leases

The Corporation has entered into various operating lease agreements with the following minimum lease payments:

	(Thousands of Dollars)
2005	$ 22
2006	7
2007	3
2008	-
2009	-
2010 and subsequent	-
	$ 32

Litigation

The Corporation is party to a number of lawsuits and has provided for these claims in its accounts in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

During the year, the Corporation settled an outstanding lawsuit related to government's involvement in the potato industry. The settlement ($7,900,000) was funded by an operating grant received from CIC.

11. OPERATING GRANT

Orders in Council #35/2004 and #674/2004 authorize the Corporation to receive grant funding up to $9,600,000 for operating requirements in 2004. During the year, the Corporation received $9,233,000 (2003 - $1,100,000) from CIC.

12. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for revenue which is at rates negotiated between SaskWater and related parties. These transactions, and amounts outstanding at year end, are as follows:

	2004	2003
	(Thousands of Dollars)	
Accounts receivable	$ 823	$ 277
Accounts payable and accrued liabilities	1,215	1,222
Revenue	11,567	3,158
Expenses	8,915	8,962

In addition, the Corporation pays Saskatchewan Provincial Sales Tax, to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

On June 30, 2004, the Corporation transferred involvement in the mobile equipment rental program to the Saskatchewan Watershed Authority. Effective this date, assets related to this activity were sold at their book value ($364,000).

13. PENSION PLAN

SaskWater's employees participate in the Capital Pension Plan (the Plan), a defined contribution pension plan which is administered by CIC. The Corporation's contributions to the Plan include making regular payments into the Plan to match the required amounts contributed by employees for current service. The total amount paid to the Plan for 2004 was $211,000 (2003 - $199,000).

14. FINANCIAL INSTRUMENTS

The Corporation's recognized financial instruments consist of bank indebtedness, accounts receivable and advances, long-term receivables, accounts payable and accrued liabilities, long-term obligations, long-term debt, and notes payable.

Credit Risk

The Corporation is exposed to credit risk from the potential default of customers. However, approximately one-half of the Corporation's accounts receivable are from municipalities, large industrial customers and other government agencies.

Fair Values

The fair values of short-term accounts receivable and all accounts and notes payable approximate their carrying value due to the short-term nature of these instruments.

	2004		2003	
	(Thousands of Dollars)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term accounts receivable	$ 56	$ 80	$ 67	$ 81
Long-term debt	43,437	51,736	42,101	49,997
Sinking Fund	4,761	5,042	4,079	4,329

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations and long-term receivables are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

Fair values of other long-term obligations approximate their carrying values. These were estimated using current discount rates.

15. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

b ard of directors

Murray Westby, Chair
- President, Westby Tractor and Equipment
- Mayor of the Town of Watrous from 1980 until retirement in 1997
- Past President of Saskatchewan Urban Municipalities Association
- Past Chair of the Board for Saskatchewan Transportation Company (1998-2000)

Dan Palsich, Vice-Chair
- 30 year career as educator
- President of the Lloydminster Credit Union Board 1986-2002
- B. Ed. and B.A., University of Saskatchewan

Nicole Garman
- Senior Internal Auditor, Robert Prosser & Associates Inc.
- Significant experience in internal control evaluation and performance-based auditing
- B. Comm., Charted Accountant and Certified Internal Auditor
- Member of the Board of Governors of the Institute of Internal Auditors, Saskatchewan Chapter

Doug Hay
- Director of Economic Development, Town of Tisdale
- Serves on several Boards and is an active member of the Saskatchewan Economic Developers Association (SEDA) and NorthEast Economic Development Association
- B. Comm. (Finance and Marketing) University of Saskatchewan

Joe Hordyski
- Mayor of La Ronge, Self-Employed
- Twenty years of experience in contracting
- Served two terms as Councillor in La Ronge before being elected as Mayor in 1997
- 28 years of active committee and public service involvement

Frank Fox
- Senior Technologist, Saskatchewan Watershed Authority
- Board representative for the Communications, Energy and Paperworkers Union of Canada (CEP)
- Applied Science Technologist (A.Sc.T.) with Saskatchewan Applied Science Technologists and Technicians (SASTT)

James Ireland
- President, ERIN Consulting Ltd.
- Extensive experience in environmental management including policy and planning
- International expert in eco industrial networking and sustainable development
- B.Sc. (Biology) Moorhead State College, M.A. (Anthropology) University of Toronto

Kelly John Lendsay
- President and CEO, Aboriginal Human Resource Development Council of Canada
- First Director of Aboriginal Business Programs at the University of Saskatchewan
- Director with the Canadian Apprenticeship Forum and an advisory board member with Corrections Canada CORCAN, Microsoft Partners for Learning, CanWest Foundation Urban Aboriginal Strategy and a national jurist with the CCAB Progressive Aboriginal Relations program and a participant in the Prime Minister's Roundtable on Aboriginal Development
- M.B.A and B.Sc. (Kinesiology), University of Saskatchewan

Dale Bloom
Secretary to the Board of Directors

c rporate governance

A. Authority

SaskWater is a statutory Crown corporation which is governed by The Saskatchewan Water Corporation Act. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. The Chair and Vice Chair are unrelated directors. The Board reports to the Crown Management Board.

B. Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to SaskWater's mandate. The Board met twelve times in 2004.

C. Committees

The Board established the following two committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Governance Committee

Audit and Finance Committee

Joe Hordyski (Chair), Nicole Garman, Doug Hay, Murray Westby

The Audit and Finance Committee mandate is to assist the Board of Directors in meeting their responsibilities with respect to financial reporting, internal control and accountability. In addition, it ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan and policy objectives. The Audit and Finance Committee met nine times in 2004.

Governance Committee

Dan Paloich (Chair), Frank Fox, Kelly Lendsay, Jim Ireland

The Governance Committee is responsible for the development and maintenance of SaskWater's corporate governance practices. Its duties include evaluating the performance of the Board and CEO and establishing appropriate board and board committee structure, composition and mandate. The Governance Committee met four times in 2004.

D. Governance Practices

SaskWater's approach to corporate governance practices is substantially consistent with the guidelines set forth in the Canadian Institute of Chartered Accountants (CICA) handbook – Guidance for Directors, Governance Processes for Control, which guidelines were adopted by the Board of Governors of the Toronto Stock Exchange. These guidelines address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskWater's corporate governance practices are benchmarked against the Toronto Stock Exchange (TSX) Guidelines in the following Governance Scorecard.

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
1. The Board should explicitly assume responsibility for the stewardship of the Corporation, specifically for:	The Board of Directors has a formal mandate with responsibility to function as stewards of the Corporation.
(a) Adoption of a strategic planning process	Among the Board's principal duties are to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan and performance management plan. The Corporation's comprehensive strategic planning process results in the annual review and approval by the board of the Corporation's strategic plan, its annual operating and capital budget and financial plan, and its performance management plan. In addition, the Board conducts an annual two-day comprehensive strategy session with Senior Management, at which the Board reviews business plans and short and long-term objectives for the Corporation. These include discussing and approving strategies to meet these objectives.
(b) The identification of the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks	The Board identifies the principal risks of the Corporation on an annual basis and monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks.
(c) Succession planning, including appointing, training and monitoring senior management	SaskWater is in the process of developing a succession plan for senior management.

c rporate governance

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
(d) a communications policy for the Corporation	Although there is no formal written policy, SaskWater is committed to the principles of transparency, openness, honesty and timeliness in communication with its shareholder, employees, stakeholders and the public. Consistent with TSX Guidelines? Yes
(e) The integrity of the Corporation's internal control and management information systems	The Audit and Finance Committee is responsible for the financial reporting, internal control and accountability of the Corporation. This Committee reviews the integrity of the internal controls and financial management information systems in conjunction with the internal and external auditors. Consistent with TSX Guidelines? Yes
2. The Board of Directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors (i.e. individuals who are independent of management and free from any interest in business or other relationships which could reasonably be perceived to materially interfere with the directors' ability to act with a view to the best interest of the Corporation, other than interests and relationships arising from shareholding)	All directors are unrelated. Consistent with TSX Guidelines? Yes
3. Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors)	SaskWater is a statutory Crown corporation and does not have any share capital. Consistent with TSX Guidelines? Not Applicable
4. The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director	None of the Directors have worked for or received remuneration from the Corporation in excess of fees and compensation associated with serving on the Board or a committee. Consistent with TSX Guidelines? Yes

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
5. The board of directors of every Corporation should appoint a committee of directors composed exclusively of outside directors, ie. non-management, the majority of whom are unrelated directors, with responsibility for proposing to the full board new nominees to the board and for assessing directors on an on-going basis	The Governance Committee has responsibility to make recommendations to the Board on the size, composition and required qualifications of the Board of Directors. All of the Governance Committee members are outside, unrelated directors. Consistent with TSX Guidelines? Yes
6. Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors	The Governance Committee oversees performance evaluation of the Board of Directors, each Committee, the Chair and individual Directors. The process is conducted by an outside third party consultant. The results are summarized and reported to the Board of Directors, as well as the Crown Management Board. Consistent with TSX Guidelines? Yes
7. Every Corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board	SaskWater provides orientation material to new Board members. As part of the ongoing training for Board members, Crown Investments Corporation of Saskatchewan has facilitated training sessions for Board members in 2004. Consistent with TSX Guidelines? Yes
8. Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making	SaskWater's Governance Committee is responsible for annually assessing the size, composition and required qualifications of the Board to determine whether it has all the necessary constituents for effective decision-making. Consistent with TSX Guidelines? Yes
9. The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director	The Governance Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation for approval any proposed adjustments to compensation levels. Crown Investments Corporation of Saskatchewan is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors. Consistent with TSX Guidelines? Yes

c rporate governance

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
10. (a) A committee should be generally composed of non-management directors (b) The majority of committee members should be unrelated	Committees are comprised solely of non-management and unrelated members. Consistent with TSX Guidelines? Yes
11. Every board of directors should expressly assume responsibility for or assign to a committee of directors the general responsibility for developing the Corporation's approach to governance issues. This committee would, amongst other things, be responsible for the Corporation's response to these governance guidelines	The Governance Committee is mandated to be responsible to the Board for governance of SaskWater, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee has reviewed and approved this report. Consistent with TSX Guidelines? Yes
12. (a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO involving the definition of the limits to management's responsibilities	The Board of Directors has approved policies for the execution of documents and expenditure authorities for the CEO and Senior Management. These policies outline the limits to Senior Management's authorities and the levels for which matters must receive Board of Directors approval. Consistent with TSX Guidelines? Partially
(b) The board should approve or develop the Corporation's objectives which the CEO is responsible for meeting	The Governance Committee annually reviews with the CEO the performance management plan that sets performance targets for the Corporation. Consistent with TSX Guidelines? Yes
13. Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management	The Board structure at SaskWater is such that the Chair of the Board is unrelated. The Board meeting procedures are such that at each meeting the Board conducts an in-camera session whereby Management, including the President, is excused from the meeting. Consistent with TSX Guidelines? Yes

TSX Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
14. The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control.	All members of the SaskWater Audit and Finance Committee are outside Directors. SaskWater's Audit and Finance Committee has a mandate to: • Review with Management and external auditor, and recommend to the Board for approval, the Annual Audited Financial Statements of the Corporation. • Review and recommend for approval of the Board the Management discussion and analysis section of the Annual Reports, as well as any other disclosure documents containing financial statements of the Corporation. • Review the quarterly financial statements. • Review annually the results of the external auditors review of the Corporation's financial record. • Review the results of the reports of the internal and external auditor with respect to the state of the Corporation's internal control systems. • Review the quality of service and the performance of the external auditor and recommend the appointment or reappointment of an external auditor. • Review and approve the plans of the Corporation's internal auditor. • Review financial forecasts and changes to the annual depreciation rates, major investments and the insurable risks and insurance coverage of the Corporation. • Review annually the efficacy of the Corporation's policies relating to execution of documents and expenditure. Consistent with TSX Guidelines? Yes
15. The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of an appropriate committee of the board.	The Board or any Committee of the Board may obtain the advice and counsel of external advisors if, in the opinion of the Board or Committee, it is necessary in order to properly discharge their function, duties and responsibilities that such advisor be engaged. Consistent with TSX Guidelines? Yes

c rporate directory

Stuart Kramer, President

Marketing and Business Development

Greg Argue, Vice President, Marketing and Business Development

Ron Blackwell, Manager, Policy, Planning and Quality Management

Felechia Brodie, Manager, Marketing and Communication

Karen Pacholka, Senior Manager, Business Development

Ron Barss, Manager, Customer Service

Engineering

Bob Wheatley, Vice President, Engineering

Glen Gillis, Manager, Northern Engineering

Shahid Khan, Manager, Water and Wastewater Engineering

Eric Light, Manager, Asset and Maintenance Engineering

Operations

Mart Cram, Vice President, Operations

Jeff Mander, Director, District Operations

Dennis Frey, Manager, District Operations – Watrous

Darin Orb, Manager, District Operations – Moose Jaw

Corporate and Human Services

Sharilee Fossum, Executive Director

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